

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 1643 - SB 1648

February 29, 2016

SUMMARY OF BILL: Increases the property value threshold for determining the extent of any property tax relief payments to disabled veterans and their surviving spouses from \$100,000 of the full market value of the property to \$175,000 of the full market value of the property for any veteran receiving property tax relief in 2014, 2015, and reapplying to receive a reimbursement for tax year 2016 and subsequent years without interruption.

ESTIMATED FISCAL IMPACT:

**Increase State Expenditures - \$3,694,700/FY16-17
\$3,506,000/FY17-18**

Other Fiscal Impact – In FY18-19 and subsequent years, the increase in state expenditures will diminish by approximately five percent each year into perpetuity.

Assumptions:

- The act shall take effect upon becoming a law, the public welfare requiring it. Therefore, it is assumed the first tax year impacted will be 2016. Given that property tax notices would be sent to taxpayers in late 2016, and paid by February 2017, the first fiscal year impact would be FY16-17.
- Pursuant to Tenn. Code Ann. § 67-5-704(a)(1), there shall be paid from the general funds of the state to certain disabled veterans the amount necessary to pay or reimburse such taxpayer for all or part of the local property taxes paid for a given tax year on that property that the disabled veteran owned and used as the disabled veteran's residence as provided in this section.
- Tax relief payments are made to eligible homeowners to reimburse the taxpayer for local property taxes paid by the homeowner; therefore, it is assumed that all applicable local property taxes have been paid at the time tax relief payments are submitted to eligible recipients.
- Any change in property tax revenue received by the applicable local government entities is estimated to be not significant.
- The provisions of Public Chapter 481 (PC481) reduced the pool of qualified applicants for the state's property tax relief program by lowering the maximum assessed property value for disabled veterans eligible for property tax relief from \$175,000 to \$100,000. This change was effective beginning in the 2015 tax year.
- Under the provisions of this legislation, disabled veteran and surviving spouse property tax relief applicants meeting the requirements outlined in Tenn. Code Ann. § 67-5-704

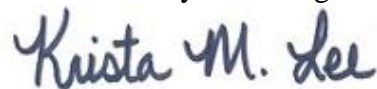
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and receiving property tax relief in 2014 and 2015, and reapplying to receive a reimbursement for tax year 2016 will be eligible to request property tax relief on up to \$175,000 of the full market value of the property beginning in 2016.

- Disabled veteran and surviving spouse property tax relief applicants who did not receive relief in 2014 and 2015, and who reapply for property tax relief for tax year 2016 or new applicants applying to receive a reimbursement for tax year 2016 will be eligible to request property tax relief on up to \$100,000 of the full market value of the property.
- Based on the most recent information provided by the Comptroller's Office which contains an estimate of 2015's tax year data, the amount of property relief provided by the state for disabled veteran homeowners and their eligible surviving spouses at the \$100,000 assessed property value limit was estimated to be \$8,384,226.
- Based on the most recent information provided by the Comptroller's Office which contains an estimate of 2015's tax year data, the projected amount of property relief that would have been provided by the state to disabled veteran homeowners and their eligible surviving spouses, in the absence of PC481's passage, at the 175,000 assessed property value limit, would have been \$11,596,988 in the 2015 tax year.
- Based on the growth rate in property tax relief payments over the last three years to disabled veteran and surviving spouse homeowners, the impact to this population has been projected forward to FY16-17 using an annual growth rate of 15 percent in order to determine the estimated increase in tax relief payments.
- Projecting the estimated property tax relief from 2015 at each property valuation for this population forward to FY16-17 will result in an estimated \$13,336,536 ($\$11,596,988 \times 115.0\%$) of property tax relief at the \$175,000 limit and an estimated \$9,641,860 ($\$8,384,226 \times 115.0\%$) of property tax relief at the \$100,000 limit.
- The increase in state expenditures for disabled veteran and surviving spouse homeowner's property tax relief from the General Fund is estimated to be \$3,694,676 ($\$13,336,536 - \$9,641,860$) in FY16-17.
- Beginning in FY17-18, an attrition rate of five percent is assumed for disabled veteran and surviving spouse homeowners that will no longer meet the requirements to receive property tax relief at the \$175,000 limit.
- The estimated increase in state expenditures for disabled veteran and surviving spouse homeowner's property tax relief from the General Funds is estimated to be \$3,509,965 ($\$3,694,676 \times 0.95\%$) in FY17-18; with subsequent year increases diminishing by approximately five percent each year into perpetuity.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

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